PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
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PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
BOARD OF TRUSTEES AND HEALTH SYSTEM OFFICIALS

Name	Title	Term Expires
	Board of Trustees	
Terry Naig	President	December 31, 2022
Dawn Schmidt	Treasurer	December 31, 2022
Mary Cooper	Secretary	December 31, 2020
Cindy Magee	Trustee	December 31, 2022
Jim Hobart	Trustee	December 31, 2022
Jana Harris	Trustee	December 31, 2022
Rick Brennan	Trustee	December 31, 2020
	Health System Officials	
Maureen Brantner	Interim Chief Executive Officer	
Sara Travis	Director of Nursing/Assistant Administrator	
Collette Johnson	Chief Financial Officer	
Coleen Ruddy	Director of Patient Accounts	

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Palo Alto County Hospital
dba: Palo Alto County Health System
Emmetsburg, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Palo Alto County Hospital, dba: Palo Alto County Health System (the Health System), and its discretely presented component unit, Palo Alto County Health Care Foundation (the Foundation), which comprise the statements of net position and balance sheets as of June 30, 2020 and 2019, and December 31, 2019 and 2018, respectively, and the related statements of revenues, expenses, and changes in net position, activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Health System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Health System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Health System and its discretely presented component unit as of June 30, 2020 and 2019 and December 31, 2019 and 2018, respectively, and the respective changes in their financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10, budgetary comparison, schedule of the Health System's proportionate share of the net pension liability, schedule of the Health System's contributions, and related notes on pages 44 through 49 are to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Health System and its discretely presented component unit as a whole. The supplementary information on pages 50 through 57 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The table of the board of trustees and health system officials, schedules of patient and resident receivables, and the schedules of comparative statistics have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Board of Trustees
Palo Alto County Hospital
dba: Palo Alto County Health System

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2020 on our consideration of the Health System's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Health System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health System's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
December 8, 2020

PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019

This discussion and analysis of the financial performance of Palo Alto County Hospital, dba: Palo Alto County Health System (the Health System) provides an overall review of the Health System's financial activities and balances as of and for the years ended June 30, 2020, 2019, and 2018. The intent of this discussion is to provide further information on the Health System's performance as a whole. We encourage readers to consider the information presented here in conjunction with the Health System's financial statements, including the notes thereto, to enhance their understanding of the Health System's financial status.

Overview of the Financial Statements

The financial statements of the Health System are composed of the statements of net position, statements of revenues, expenses, and changes in net position, and the statements of cash flows. The financial statements also include notes that explain in detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Health System's finances.

The Health System's financial statements offer short and long-term information about its activities. The statements of net position include all of the Health System's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and provide information about the nature and amounts of investments in resources (assets) and the obligations to Health System creditors (liabilities). The statements of net position also provide the basis for evaluating the capital structure of the Health System and assessing the liquidity and financial flexibility of the Health System.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net position. These statements measure the success of the Health System's operations over the past year and can be used to determine whether the Health System has successfully recovered all of its costs through its patient and resident service revenue and other revenue sources. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final statement is the statement of cash flows. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities. They also provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Highlights

The statements of net position and the statement of revenues, expenses, and changes in net position report the net position of the Health System and the changes in them. The Health System's net position – the difference between assets, deferred outflows of resources and liabilities, and deferred inflows of resources – is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Health System's net position are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in economic condition, population growth, and new or changed governmental legislation should also be considered.

Financial Highlights (Continued)

The statements of net position at June 30, 2020, indicates total assets of $53,817,772, deferred outflows of resources of $1,998,772, deferred inflows of resources of $3,044,900, total liabilities of $23,854,000, and net position of $28,917,594.

- The statements of revenues, expenses, and changes in net position indicate total net operating revenue of $26,990,829 an increase of 1.34% over the previous fiscal year, total operating expenses of $28,120,694 an increase of 5.72% over the previous fiscal year, resulting in an operating loss of $1,129,865 or -4.19% of total operating revenues compared to 0.14% in the previous year. The Health System had nonoperating gains of $2,429,643.

- The Health System recorded an excess of revenues over expenses for fiscal year ended June 30, 2020, amounting to $1,299,778.

- The Health System's current assets exceeded its current liabilities by $16,187,117 at June 30, 2020, providing a 2.81 current ratio.

- Gross outpatient charges decreased 1.33% during fiscal year 2020.

- Net days in accounts receivable continue to be very favorable at 35 on June 30, 2020.

- Acute patient days totaled 851 a 16.42% increase from prior year

- Skilled care days totaled 996 a 5.14% decrease from prior year

- Long-term care days totaled 7,916 a 0.37% increase from prior year

- Surgeries totaled 602, a 14.61% decrease from prior year

- Physical Therapy visits totaled 6,562, a 5.09% increase from prior year

Organization Highlights

The Health System continued to make many positive changes over this last fiscal year, including:

- PACHS participated in few community events and activities: The 4th of July and Labor Day Parades, Palo Alto County Relay for Life, Palo Alto County Fair, Immunization and Sports Physicals. From March 2020 to end of FY, all activities and events were cancelled due to the Pandemic.

- Participated in the Iowa Lakes Community College new student welcome day to promote health care services and jobs at the Health System.

- Gathered at the Wild Rose Casino in Emmetsburg for the Annual Employee and Volunteer Recognition Dinner.

Organization Highlights (Continued)

- Developed and implemented an ER model, utilizing PACHS providers, eliminating Acute Care locums group.

- Full time PT hired after a long period of recruitment.

- Awarded $725,000 from HRSA for MAT assisted therapy, this will be used to enhance our Behavioral Health Program.

- In early March 2020, implemented Incident Command Structure (ICS) in response to the Pandemic. At end of FY, ICS was still meeting weekly.

- Sudden departure of CEO in April. Maureen Brantner from MercyOne North Iowa named Interim CEO during the replacement search.

- Two new doctors joined in July and August. PACHS welcomed Dr. Jason Patton and Dr. Jonathon Sticca as Family Practice physicians with OB/C-section privileges. Jordyn Harmon, ARNP and Annie Zwiefel, ARNP on boarded in fall of 2019 and Brenna Jiron, ARNP joined the practice in early 2020.

Condensed Financial Statements

Table 1: Statements of Net Position

	2020	2019	2018
ASSETS			
Current Assets	$ 23,661,085	$ 17,034,263	$ 22,263,644
Succeeding Year Property Tax Receivable	1,477,253	1,471,392	1,425,089
Noncurrent Cash and Investments	9,748,507	9,573,115	2,561,794
Capital Assets, Net	18,930,877	20,678,158	21,832,157
Total Assets	53,817,722	48,756,928	48,082,684
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Deferred Outflows	1,951,775	2,107,991	2,570,702
Deferred Loss from Refinancing of Long-Term Debt	46,997	51,904	56,434
Total Deferred Outflows of Resources	1,998,772	2,159,895	2,627,136
Total Assets and Deferred Outflows of Resources	$ 55,816,494	$ 50,916,823	$ 50,709,820
LIABILITIES			
Current Liabilities	$ 8,951,221	$ 3,748,525	$ 4,379,184
Long-Term Debt (Less Current Maturities)	7,970,208	9,770,000	10,610,000
Other Liabilities	31,603	37,314	33,164
Net Pension Liability	6,900,968	7,290,515	8,533,035
Total Liabilities	23,854,000	20,846,354	23,555,383
DEFERRED INFLOWS OF RESOURCES			
Deferred Revenue from Succeeding Year Property Tax Receivable	1,477,253	1,471,392	1,425,089
Pension Related Deferred Inflows	1,567,647	1,046,072	256,273
Total Deferred Inflows of Resources	3,044,900	2,517,464	1,681,362
NET POSITION			
Net Investment in Capital Assets	12,282,327	10,068,158	10,407,157
Restricted - Expendable Under Bond Agreement	587,048	573,115	561,794
Unrestricted	16,048,219	16,911,732	14,504,124
Total Net Position	28,917,594	27,553,005	25,473,075
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 55,816,494	$ 50,916,823	$ 50,709,820

Long-Term Debt

Palo Alto County Health System had $1,230,985 and $7,970,208 in short-term and long-term debt, respectively, for the year ended June 30, 2020, and $840,000 and $9,770,000 in short-term and long-term debt, respectively, for the year ended June 30, 2019.

Table 2: Statements of Revenues, Expenses, and Changes in Net Position

	2020	2019	2018
OPERATING REVENUES			
Net Patient and Resident Service Revenue	$ 26,148,881	$ 25,622,705	$ 23,731,454
Apartment Revenue	461,071	426,311	412,849
Other Revenue	380,877	586,229	806,655
Total Operating Revenues	26,990,829	26,635,245	24,950,958
OPERATING EXPENSES			
Salaries and Wages	10,417,498	9,674,661	9,058,890
Employee Benefits	4,247,397	3,885,922	4,069,521
Supplies and Other Expenses	10,528,495	10,205,510	9,836,620
Depreciation and Amortization	2,660,053	2,538,802	2,658,697
Interest	267,251	293,307	327,746
Total Operating Expenses	28,120,694	26,598,202	25,951,474
OPERATING INCOME (LOSS)	(1,129,865)	37,043	(1,000,516)
Nonoperating Revenues, Net	2,429,643	1,967,887	1,787,032
EXCESS OF REVENUES OVER EXPENSES	1,299,778	2,004,930	786,516
Capital Grants and Contributions	64,811	75,000	25,918
Increase in Net Position	1,364,589	2,079,930	812,434
Net Position - Beginning of Year	27,553,005	25,473,075	24,660,641
NET POSITION - END OF YEAR	$ 28,917,594	$ 27,553,005	$ 25,473,075

Economic and Other Factors and Next Year's Budget

The Health System's board and management considered many factors when preparing the fiscal year 2021 budget. Of primary consideration in the 2021 budget are the unknowns of health care reform and the continued difficulty in the status of the economy. Items listed below considered:

- Medicare and Medicaid reimbursement rates
- Managed Care contracts
- Increase in self-pay accounts receivable due to uninsured and underinsured
- Home reimbursement
- Staffing benchmarks
- Increased expectations for quality at a lower price
- Salary and benefit costs
- Increasing supply costs
- Energy costs
- Patient safety initiatives
- Pay-for-performance and quality indicators
- Technology advances
- Medical Staff issues and changes

Summary

The Health System's board of trustees and administrative team continue to be extremely proud of the excellent patient care, dedication, commitment, and support each of our employees provides to every person they serve. We would also like to thank each member of the Health System's medical staff for their dedication and support provided.

Contacting the Health System's Finance Department

The Health System's financial statements are designed to present users with a general overview of the Health System's finances and to demonstrate the Health System's accountability. If you have questions about the report or need additional financial information, please contact the finance department at the following address:

Palo Alto County Health System
Attn: Collette Johnson, CFO
3201 1st Street
Emmetsburg, IA 50536

PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
STATEMENTS OF NET POSITION
JUNE 30, 2020 AND 2019

	2020	2019
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 12,688,190	$ 3,986,080
Investments	7,025,372	9,393,263
Patient and Resident Receivables, Net of Allowance for Uncollectible Accounts ($312,203 in 2020, $344,895 in 2019)	2,497,040	2,496,192
Other Receivables	669,190	319,846
Estimated Third-Party Payor Settlements	309,544	387,797
Succeeding Year Property Tax Receivable	1,477,253	1,471,392
Inventories	376,455	353,375
Prepaid Expenses	95,294	97,710
Total Current Assets	25,138,338	18,505,655
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Capital Improvements	9,161,459	9,000,000
Restricted by Bond Agreement	587,048	573,115
Total Noncurrent Cash and Investments	9,748,507	9,573,115
CAPITAL ASSETS, NET	18,930,877	20,678,158
Total Assets	53,817,722	48,756,928
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related Deferred Outflows	1,951,775	2,107,991
Deferred Loss from Refinancing of Long-Term Debt	46,997	51,904
Total Deferred Outflows of Resources	1,998,772	2,159,895
Total Assets and Deferred Outflows of Resources	$ 55,816,494	$ 50,916,823

See accompanying Notes to Financial Statements.

PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
STATEMENTS OF NET POSITION (CONTINUED)
JUNE 30, 2020 AND 2019

	2020	2019
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 1,230,985	$ 840,000
Accounts Payable	779,334	481,959
Construction Payable	133,486	194,244
Payable to Affiliated Organization	389,540	415,498
Unearned Grant Revenue	4,298,308	-
Accrued Expenses:		
Salaries and Wages	334,596	444,381
Paid Time Off	725,532	633,214
Interest	84,275	111,060
Payroll Taxes and Benefits	580,165	233,169
Estimated Health Claims	395,000	395,000
Total Current Liabilities	8,951,221	3,748,525
SECURITY DEPOSITS	31,603	37,314
NET PENSION LIABILITY	6,900,968	7,290,515
LONG-TERM DEBT	7,970,208	9,770,000
Total Liabilities	23,854,000	20,846,354
DEFERRED INFLOWS OF RESOURCES		
Succeeding Year Property Tax Receivable	1,477,253	1,471,392
Pension Related Deferred Inflows	1,567,647	1,046,072
Total Deferred Inflows of Resources	3,044,900	2,517,464
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Net Investment in Capital Assets	12,282,327	10,068,158
Restricted - Expendable Under Bond Agreement	587,048	573,115
Unrestricted	16,048,219	16,911,732
Total Net Position	28,917,594	27,553,005
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 55,816,494	$ 50,916,823

See accompanying Notes to Financial Statements.

PALO ALTO COUNTY HEALTH CARE FOUNDATION
BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 679,708	$ 687,884
Accrued Interest Receivable	729	753
Total Current Assets	680,437	688,637
NONCURRENT CASH AND INVESTMENTS	1,165,511	1,147,653
Total Assets	$ 1,845,948	$ 1,836,290
NET ASSETS		
NET ASSETS		
Without Donor Restrictions	$ 1,845,948	$ 1,836,290
Total Liabilities and Net Assets	$ 1,845,948	$ 1,836,290

See accompanying Notes to Financial Statements.

PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
OPERATING REVENUES		
Patient and Resident Service Revenue (Net of Contractual Allowances and Discounts and Provision for Uncollectible Accounts)	$ 26,148,881	$ 25,622,705
Apartment Revenue	461,071	426,311
Other Operating Revenue	380,877	586,229
Total Operating Revenues	26,990,829	26,635,245
OPERATING EXPENSES		
Salaries and Wages	10,417,498	9,674,661
Employee Benefits	4,247,397	3,885,922
Supplies and Other Expenses	10,528,495	10,205,510
Depreciation	2,660,053	2,538,802
Interest and Amortization	267,251	293,307
Total Operating Expenses	28,120,694	26,598,202
OPERATING INCOME (LOSS)	(1,129,865)	37,043
NONOPERATING REVENUE (EXPENSE)		
Investment Income	510,056	372,739
Tax Apportionments	1,565,669	1,525,996
Noncapital Contributions and Grants	363,803	69,380
Loss on Disposal of Capital Assets	(9,885)	(228)
Nonoperating Revenue (Expense), Net	2,429,643	1,967,887
EXCESS OF REVENUES OVER EXPENSES	1,299,778	2,004,930
CAPITAL GRANTS AND CONTRIBUTIONS	64,811	75,000
INCREASE IN NET POSITION	1,364,589	2,079,930
Net Position - Beginning of Year	27,553,005	25,473,075
NET POSITION - END OF YEAR	$ 28,917,594	$ 27,553,005

See accompanying Notes to Financial Statements.

PALO ALTO COUNTY HEALTH CARE FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
REVENUES		
Investment Income	$ 45,008	$ 11,114
Contributions	13,855	17,622
Total Revenues	58,863	28,736
EXPENSES		
Other Expenses	560	405
Contributions to Health System	48,645	28,231
Total Expenses	49,205	28,636
INCREASE IN UNRESTRICTED NET ASSETS	9,658	100
Net Assets - Beginning of Year	1,836,290	1,836,190
NET ASSETS - END OF YEAR	$ 1,845,948	$ 1,836,290

See accompanying Notes to Financial Statements.

PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients, Residents, and Third-Party Payors	$ 26,687,357	$ 24,579,889
Cash Paid to Employees	(14,047,122)	(13,408,328)
Cash Paid to Suppliers and Contractors	(10,277,742)	(10,173,757)
Other Receipts and Payments, Net	31,533	505,781
Net Cash Provided by Operating Activities	2,394,026	1,503,585
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital Grants and Contributions	4,662,111	69,380
County Tax Revenue Received	1,565,669	1,525,996
Net Cash Provided by Noncapital Financing Activities	6,227,780	1,595,376
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	(3,961,450)	(815,000)
Purchase of Capital Assets	(983,415)	(1,242,409)
Proceeds from Issuance of Long-Term Debt	2,552,643	-
Interest Payments on Long-Term Debt	(289,129)	(309,849)
Net Security Deposits Paid	(5,711)	4,150
Capital Grants and Contributions	64,811	75,000
Net Cash Used by Capital and Related Financing Activities	(2,622,251)	(2,288,108)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(364,131)	(15,463,102)
Sales and Transfers of Investments	2,621,450	12,463,102
Investment Income	445,236	57,095
Net Cash Provided (Used) by Investing Activities	2,702,555	(2,942,905)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,702,110	(2,132,052)
Cash and Cash Equivalents - Beginning	3,986,080	6,118,132
CASH AND CASH EQUIVALENTS - ENDING	$ 12,688,190	$ 3,986,080

See accompanying Notes to Financial Statements.

PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	$ (1,129,865)	$ 37,043
Adjustments to Reconcile Adjusted Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	2,660,053	2,538,802
Amortization	4,907	4,530
Interest Expense Considered Capital and Related Financing Activity	262,344	288,777
Provision for Uncollectible Accounts	222,972	406,072
(Increase) Decrease in:		
Patient and Resident Receivables	(223,820)	(432,144)
Other Receivables	(349,344)	(80,448)
Inventories	(23,080)	(37,572)
Prepaid Expenses	2,416	(66,459)
Pension Related Deferred Outflows of Resources	156,216	462,711
Increase (Decrease) in:		
Accounts Payable - Trade and Affiliated	271,417	135,784
Accrued Expenses	329,529	142,265
Estimated Third-Party Payor Settlements	78,253	(1,443,055)
Net Pension Liability	(389,547)	(1,242,520)
Pension Related Deferred Inflows of Resources	521,575	789,799
Net Cash Provided by Operating Activities	$ 2,394,026	$ 1,503,585
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Assets Included in Accounts Payable	$ 133,486	$ 194,244

See accompanying Notes to Financial Statements.

PALO ALTO COUNTY HEALTH CARE FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase In Unrestricted Net Assets	$ 9,658	$ 100
Adjustments to Reconcile Increase in Unrestricted Net Assets to Net Cash Provided (Used) by Operating Activities:		
Unrealized (Gain) Loss	(14,194)	9,269
Changes in Assets and Liabilities:		
Accrued Interest Receivable	24	8,652
Net Cash Provided (Used) by Operating Activities	(4,512)	18,021
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(24,215)	(24,653)
Sale of Investments	20,551	23,583
Net Cash Used by Investing Activities	(3,664)	(1,070)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,176)	16,951
Cash and Cash Equivalents - Beginning	687,884	670,933
CASH AND CASH EQUIVALENTS - ENDING	$ 679,708	$ 687,884

See accompanying Notes to Financial Statements.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Palo Alto County Hospital, dba: Palo Alto County Health System (the Health System), consists of a 25-bed acute care hospital and a 22-bed skilled nursing/long-term care facility, located in Emmetsburg, Iowa. It is organized under Chapter 347 of the Code of Iowa. The Health System provides health care services in accordance with a Master Affiliation Agreement discussed further in Note 10. Services are provided to residents of Palo Alto County and surrounding counties in Iowa.

Reporting Entity

For financial reporting purposes, the Health System has included all funds, organizations, agencies, boards, commissions, and authorities. The Health System has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Health System are such that exclusion would cause the Health System's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Health System to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Health System.

Palo Alto County Health Care Foundation (the Foundation) is a legally separate, tax-exempt component unit of the Health System and has a year-end of December 31. The Foundation's financial statements have been included as a discretely presented component unit. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the Health System in support of its operations and programs. The Health System does not appoint a voting majority of the Foundation's board of directors or in any way impose its will over the Foundation. However, the Foundation is included as a discretely presented component unit due to the nature and significance of its relationship to the Health System.

Tax-Exempt Status

The Foundation is an Iowa nonprofit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose, as applicable.

The Foundation believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation – Health System

The statements of net position display the Health System's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Net position is reported in the following categories/components:

Net Investment in Capital Assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position:

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations that require them to be maintained permanently by the Health System.

Expendable – Expendable net position result when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net positions.

Unrestricted Net Position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management, which can be removed or modified.

When both restricted and unrestricted net position is available for use, generally it is the Health System's policy to use restricted net position first.

Basis of Presentation – Foundation

The Foundation reports information regarding its financial position and operations according to two classes of net assets depending on the existence or nature of any donor restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Those resources over which the Foundation has discretionary control.

Net Assets With Donor Restrictions – Include net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource has been fulfilled, or both.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation – Foundation (Continued)

Unconditional promises to give cash and other assets are accrued at estimated fair market value at the date each promise is received. The gifts are reported net assets with restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, net assets are released and reported as an increase in net assets without donor restrictions. Donor-restricted contributions whose restrictions are met within the same reporting period as received are recorded as unrestricted contributions.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Health System's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by GASB. The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

The Health System uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus. Based on GASB Codification Topic 1600, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* as amended, the Health System has elected not to apply provisions of any pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

The Foundation's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the FASB. The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less when purchased, excluding assets limited as to use or restricted.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient and Resident Receivables

Patient and resident receivables are reduced by an allowance for doubtful accounts. Patients and residents are not required to provide collateral for services rendered. Payment for services is required upon receipt of an invoice, after payment by insurance, if any. In evaluating the collectability of patient and resident accounts receivable, the Health System analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients and residents who have third-party coverage, the Health System analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Health System records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. Accounts that are determined to be uncollectible are sent to a collection agency and written off at that time.

At June 30, 2020 and 2019, the allowance for doubtful accounts for self-pay patients was approximately $312,000 and $345,000, respectively. The Health System's self-pay write-offs decreased approximately $220,000 from $671,000 for fiscal year 2019 to $452,000 for fiscal year 2020. The Health System has not materially changed its charity care or uninsured discount policies during fiscal years 2019 or 2020. The Hospital does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County board of supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the board of trustees to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the board of trustees is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are valued at historical cost using the first-in, first-out method.

Noncurrent Cash and Investments

Noncurrent cash and investments include assets set aside by the board of trustees for future capital improvements, over which the board retains control and may at its discretion subsequently use for other purposes; and assets that are restricted by bond agreements. Noncurrent cash and investments that are available for obligations classified as current liabilities are reported in current assets.

Restricted funds are used to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds on which donors or grantors place no restriction or which arise as a result of the operations of the Health System for its stated purposes. Resources set aside for board-designated purposes are not considered to be restricted. Grants and contributions are reported in nonoperating revenue.

Capital Assets

Capital asset acquisitions in excess of $5,000 are capitalized and are recorded at cost. Capital assets donated for the Health System's operations are recorded as additions to net position at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The estimated useful lives of capital assets are as follows:

Land Improvements	10 to 20 Years
Buildings and Fixed Equipment	5 to 40 Years
Major Movable Equipment	3 to 20 Years

Compensated Absences

Health System employees accumulate a limited amount of earned but unused paid time-off for subsequent use or for payment upon termination, death, or retirement. The cost of projected paid time-off payouts is recorded as a current liability on the statements of net position based on rates that are in effect at June 30, 2020 and 2019.

Investment Income

Interest on cash and deposits is included in nonoperating revenues and expenses.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds or employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future year(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the Health System after the measurement date but before the end of the Health System's reporting period. Deferred outflows of resources also includes a deferred loss on debt refinance that is being amortized over the term of the refinanced debt.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position available to a future year(s), which will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the statements of net position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied, and unamortized items not yet charged to pension expense.

Operating Revenues and Expenses

The Health System's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Health System's principal activity. Nonexchange revenues, including interest income, taxes, grants, loss on disposal of capital assets, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

Net Patient and Resident Service Revenue

The Health System has agreements with third-party payors that provide for payments to the Health System at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Patient and Resident Service Revenue (Continued)

Patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Contributions and Grants

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted either for specific operating purposes or for capital purposes. Amounts that are unrestricted or are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. Grant proceeds received where all eligibility requirements have not yet been met are presented as unearned grant revenue in the statements of net position.

Charity Care

To fulfill its mission of community service, the Health System provides care to patients and residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients and residents is automatically recorded in the accounting system at the established rates, but the Health System does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient and resident service revenue, depending on the timing of the charity determination.

Electronic Health Record Incentive Payments

As discussed in Note 5, the Health System received funds under the Electronic Health Records (EHR) Incentive Program. The Health System recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured the Health System will meet all meaningful use objectives and any other specific grant requirements that are applicable, e.g., electronic transmission of quality measures to CMS in the second and subsequent payment years.

Advertising Costs

The Health System expenses advertising costs as incurred. The Health System incurred advertising costs of $129,869 and $92,210 for the years ended June 30, 2020 and 2019, respectively.

County Tax Revenue

Taxes are included in nonoperating revenues when received and distributed by the County Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expense Allocation – Foundation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. Directly identifiable expenses are charged to programs and support services. Expenses relating to more than one function are allocated based upon management's judgement. Management and general expenses include those expenses that are not directly identifiable with any specific function but provide overall support to the Foundation.

Reclassifications

Certain items in the 2019 financial statements were reclassified for comparison purposes with the 2020 financial statements. The reclassifications did not result in a change in net position as previously reported.

NOTE 2 DESIGNATED NET POSITION

Of the $16,048,219 and $16,911,732 of unrestricted net position at June 30, 2020 and 2019, respectively, the board of trustees has designated $9,161,459 and $9,000,000 as of June 30, 2020 and 2019, respectively, for capital expenditures. Designated funds remain under the control of the board of trustees, which may at its discretion later use the funds for other purposes. Designated funds are reflected in noncurrent cash and investments.

NOTE 3 CHARITY CARE AND COMMUNITY BENEFITS

The Health System maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The amounts of charges foregone were $185,108 and $141,588 for the years ended June 30, 2020 and 2019, respectively. The estimated costs of the charges foregone, based upon an overall cost-to-charge ratio calculation, for the years ended June 30, 2020 and 2019, were approximately $123,000 and $87,000, respectively.

In addition, the Health System provides services to other medically indigent patients under certain government reimbursed public aid programs. Such programs pay providers amounts that are less than established charges for the services provided to the recipients, and for some services, the payments are less than the cost of rendering the services provided.

The Health System also commits significant time and resources to endeavors and critical services that meet otherwise unfulfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

NOTE 4 NET PATIENT AND RESIDENT SERVICE REVENUE

The Health System has agreements with third-party payors that provide for payments to the Health System at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

The Health System is licensed as a Critical Access Hospital (CAH). The Health System is reimbursed for most inpatient and outpatient services at allowable cost plus 1%, less sequestration of 2%, with final settlement determined after submission of annual cost reports by the Health System and are subject to audits thereof by the Medicare fiscal intermediary. The Health System's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2016.

Medicaid

Hospital

Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Health System is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Health System and audits thereof by the Medicaid fiscal intermediary. The Health System's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2016.

Effective April 1, 2016, Iowa Medicaid transitioned to three managed care organizations (MCO): United Healthcare, Amerigroup, and AmeriHealth Caritas. During fiscal year 2018, AmeriHealth Caritas dropped out of the plan and is no longer participating. The Health System is a participating provider with both organizations during fiscal years 2020 and 2019. Payment rates and methodology with each MCO are to mirror those that were previously paid by Iowa Medicaid. Effective July 1, 2019, United Healthcare is no longer a participating managed care organization, while Iowa Total Care has now entered the plan. The Health System is contracted with Iowa Total Care.

Nursing Home

Routine services rendered to nursing home residents who are beneficiaries of the Medicaid program are paid according to a schedule of prospectively determined daily rates.

Blue Cross

Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined rates per discharge using APR-DRGs. Outpatient services are reimbursed on a prospective basis based on groups of services called EAPGs.

Other Payors

The Health System has also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Health System under these agreements may include prospectively determined rates and discounts from established charges.

NOTE 4 NET PATIENT AND RESIDENT SERVICE REVENUE (CONTINUED)

Uninsured Patients

The Health System recognizes patient and resident service revenue associated with services provided to patients and residents who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients and residents that do not qualify for charity care, the Health System recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Health System's uninsured patients and residents will be unable or unwilling to pay for the services provided. Thus, the Health System records a significant provision for uncollectible accounts related to uninsured patients and residents in the period the services are provided.

Patient and resident service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the period from these major payor sources, is as follows:

	2020	2019
Patient and Resident Service Revenue (Net of Contractual Allowances and Discounts) from:		
Third-Party Payors	$ 25,445,802	$ 25,021,160
Uninsured Patients	926,051	1,007,617
Subtotal	26,371,853	26,028,777
Provision for Uncollectible Accounts	(222,972)	(406,072)
Net Patient and Resident Service Revenue Less Provision for Uncollectible Accounts	$ 26,148,881	$ 25,622,705

Revenue from the Medicare and Medicaid programs accounted for approximately 44% and 16%, respectively, of the Health System's net patient and resident service revenue for the year ended June 30, 2020, and 44% and 17%, respectively, of the Health System's net patient and resident service revenue for the year ended June 30, 2019.

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

A summary of patient and resident service revenue, contractual adjustments, and provision for uncollectible accounts for the years ended June 30, 2020 and 2019 is as follows:

	2020	2019
Total Patient and Resident Service Revenue	$ 40,681,070	$ 40,841,319
Revenue Adjustments:		
Medicare	(6,431,611)	(6,966,183)
Medicaid	(2,169,322)	(2,391,505)
Provision for Uncollectible Accounts	(222,972)	(406,072)
Commercial and Other	(5,708,284)	(5,454,854)
Total Contractual Adjustments and Uncollectible Accounts	(14,532,189)	(15,218,614)
Net Patient and Resident Service Revenue	$ 26,148,881	$ 25,622,705

NOTE 5 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified EHR technology. The incentive payments are made based on a statutory formula and are contingent on the Health System continuing to meet the escalating meaningful use criteria. For the first payment year, the Health System must attest, subject to an audit, that it met the meaningful use criteria for a continuous 90-day period. For the subsequent payment year, the Health System must demonstrate meaningful use for the entire year. The incentive payments are generally made over a four-year period. For hospitals that do not start receiving meaningful use payments until federal fiscal year 2014 or 2015, the base payment amount will reduce in subsequent years by one-fourth, one-half, and three-fourths.

The Health System initially demonstrated meaningful use during the 90-day period ended September 1, 2011, and has received incentive payments in prior years. The Health System has completed their EHR project and was awarded $157,240 for the year ended June 30, 2019. There were no payments received for the year ended June 30, 2020, as the fiscal year 2019 was the final year of payment.

NOTE 6 DEPOSITS AND INVESTMENTS

The Health System’s deposits in banks at June 30, 2020 and 2019 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Health System is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the board of trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

NOTE 6 DEPOSITS AND INVESTMENTS (CONTINUED)

At June 30, 2020 and 2019, the Health System's carrying amounts of deposits and investments are as follows:

	2020	2019
Checking and Savings Accounts	$ 12,688,190	$ 3,986,080
Certificates of Deposit	16,186,831	18,393,263
Money Market Accounts	587,048	573,115
Total Deposits	$ 29,462,069	$ 22,952,458
Included in the Following Balance Sheet Captions:		
Cash and Cash Equivalents	$ 12,688,190	$ 3,986,080
Investments	7,025,372	9,393,263
Assets Limited as to Use or Restricted	9,748,507	9,573,115
Total Deposits	$ 29,462,069	$ 22,952,458

At December 31, 2019 and 2018, the Foundation's carrying amounts of deposits and investments are as follows:

	2019	2018
Cash and Cash Equivalents	$ 679,708	$ 687,884
Certificates of Deposit	1,165,511	1,147,653
Total Deposits	$ 1,845,219	$ 1,835,537

Interest rate risk is the exposure to fair value losses resulting from rising interest rates. The primary objectives, in order of priority, of all investment activities involving the financial assets of the Health System are:

1. **Safety:** Safety and preservation of principal in the overall portfolio.
2. **Liquidity:** Maintaining the necessary liquidity to match expected liabilities.
3. **Return:** Obtaining a reasonable return.

The Health System's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Health System.

The Health System uses the fair value hierarchy stabled by accounting principles generally accepted in the United States of America based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

The Health System had no other investments meeting the disclosure requirements of GASB Statement No. 72.

NOTE 7 CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2020 and 2019 was as follows:

	July 1, 2019	Additions	(Retirements)	Transfers	June 30, 2020
Capital Assets Not Being Depreciated:					
Land	$ 140,365	$ -	$ -	$ -	$ 140,365
Total Capital Assets Not Being Depreciated	140,365	-	-	-	140,365
Capital Assets Being Depreciated:					
Land Improvements	955,372	115,674	(21,838)	-	1,049,208
Buildings	31,373,420	3,000	(40,292)	540,879	31,877,007
Fixed Equipment	2,696,347	80,715	(65,057)	-	2,712,005
Major Movable Equipment	12,785,887	723,268	(1,854,729)	(540,879)	11,113,547
Total Capital Assets Being Depreciated	47,811,026	922,657	(1,981,916)	-	46,751,767
Accumulated Depreciation:					
Land Improvements	327,598	29,655	(21,838)	-	335,415
Buildings	15,577,725	1,438,659	(38,887)	64,779	17,042,276
Fixed Equipment	2,003,155	46,382	(65,057)	-	1,984,480
Major Movable Equipment	9,364,755	1,145,357	(1,846,249)	(64,779)	8,599,084
Total Accumulated Depreciation	27,273,233	2,660,053	(1,972,031)	-	27,961,255
Total Capital Assets Being Depreciated, Net	20,537,793	(1,737,396)	(9,885)	-	18,790,512
Total Capital Assets, Net	$ 20,678,158	$ (1,737,396)	$ (9,885)	$ -	$ 18,930,877

	July 1, 2018	Additions	(Retirements)	Transfers	June 30, 2019
Capital Assets Not Being Depreciated:					
Land	$ 140,365	$ -	$ -	$ -	$ 140,365
Total Capital Assets Not Being Depreciated	140,365	-	-	-	140,365
Capital Assets Being Depreciated:					
Land Improvements	931,287	24,085	-	-	955,372
Buildings	31,366,888	6,532	-	-	31,373,420
Fixed Equipment	2,248,980	447,367	-	-	2,696,347
Major Movable Equipment	12,880,106	912,543	(1,006,762)	-	12,785,887
Total Capital Assets Being Depreciated	47,427,261	1,390,527	(1,006,762)	-	47,811,026
Accumulated Depreciation:					
Land Improvements	313,691	13,907	-	-	327,598
Buildings	14,156,952	1,420,773	-	-	15,577,725
Fixed Equipment	1,924,595	78,560	-	-	2,003,155
Major Movable Equipment	9,340,231	1,025,562	(1,001,038)	-	9,364,755
Total Accumulated Depreciation	25,735,469	2,538,802	(1,001,038)	-	27,273,233
Total Capital Assets Being Depreciated, Net	21,691,792	(1,148,275)	(5,724)	-	20,537,793
Total Capital Assets, Net	$ 21,832,157	$ (1,148,275)	$ (5,724)	$ -	$ 20,678,158

NOTE 8 LONG-TERM DEBT

A schedule of changes in long-term debt for the years ended 2020 and 2019 is as follows:

	Balance July 1, 2019	Additions	(Payments) and Amortization	Balance June 30, 2020	Due Within One Year
Hospital Revenue Bonds, Series 2015	$ 4,270,000	$ -	$ (3,456,450)	$ 813,550	$ 345,000
Hospital Revenue Bonds, Series 2016	6,340,000	-	(505,000)	5,835,000	515,000
PPP Loan	-	2,552,643	-	2,552,643	370,985
Total Long-Term Debt	$ 10,610,000	$ 2,552,643	$ (3,961,450)	9,201,193	$ 1,230,985
Less: Current Maturities				(1,230,985)	
Total Long-Term Debt, Net				$ 7,970,208	

	Balance July 1, 2018	Additions	(Payments) and Amortization	Balance June 30, 2019	Due Within One Year
Hospital Revenue Bonds, Series 2015	$ 4,595,000	$ -	$ (325,000)	$ 4,270,000	$ 335,000
Hospital Revenue Bonds, Series 2016	6,830,000	-	(490,000)	6,340,000	505,000
Total Long-Term Debt	$ 11,425,000	$ -	$ (815,000)	$ 10,610,000	$ 840,000
Less: Current Maturities				(840,000)	
Total Long-Term Debt, Net				$ 9,770,000	

Aggregate future payments of principal and interest on the long-term debt obligations are as follows:

Year Ending June 30,	Long-Term Debt Principal	Interest	Total
2021	$ 1,230,985	$ 219,868	$ 1,450,853
2022	1,446,099	164,153	1,610,252
2023	1,225,286	134,517	1,359,803
2024	1,132,411	112,213	1,244,624
2025	1,056,412	91,169	1,147,581
2026-2030	3,110,000	199,903	3,309,903
Total	$ 9,201,193	$ 921,823	$ 10,123,016

Hospital Revenue Bond, Series 2015

The Hospital Revenue Bonds, Series 2015 were issued in the amount of $5,065,000 on March 31, 2015. Proceeds of the bonds were distributed by UMB Bank, N.A. Payments of interest at rates of 2.889% are payable annually February 1 and August 1. Principal payments began February of 2017 and are to be paid until 2023.

Hospital Revenue Bond, Series 2016

The Hospital Revenue Refunding Bonds, Series 2016 were issued in the amount of $7,535,000 on August 1, 2016. Proceeds of the bonds were distributed by UMB Bank, N.A. to refinance the Hospital Revenue Bonds, Series 2006 and pay bond issuance costs. Payments of interest at rates of 2.678% are payable annually February 1 and August 1. Principal payments began February of 2017 and are to be paid annually on February 1 and August 1 until 2030.

NOTE 8 LONG-TERM DEBT (CONTINUED)

Hospital Revenue Bond, Series 2016 (Continued)

The Health System is subject to certain covenants under the bond agreements related to debt service coverage ratio and liquidity. The Health System was in compliance with these covenants for the years ended June 30, 2020 and 2019.

The bond resolution of the Series 2015 and 2016 bonds requires the establishment of the following bond fund:

Sinking Fund – Into which the Health System is required to deposit a monthly sum equal to at least one-sixth of the interest coming due on the bonds on the next interest payment date. In addition, the Health System is required to deposit a monthly sum equal to at least one-sixth of the principal coming due on the bonds on the next principal date.

Paycheck Protection Program (PPP) Loan

On April 16, 2020, the Health System entered into a loan agreement with Iowa Trust & Savings Bank under the Small Business Administration (SBA) Paycheck Protection Program (PPP) for the amount of $2,552,643. The loan accrues interest at 1% with principal and interest payments due monthly starting in October 2020 through April 2025. There are provisions under the PPP loan program where all or a portion of the loan may be forgiven based on certain criteria like maintaining full time equivalent employees. The amount of the loan forgiveness has yet to be determined.

NOTE 9 PENSION AND RETIREMENT BENEFITS

Plan Description

IPERS membership is mandatory for employees of the Health System, except for those covered by another retirement system. Employees of the Health System are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues stand-alone financial report, which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55.

NOTE 9 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Pension Benefits (Continued)

The formula used to calculate a Regular member's monthly IPERS benefits includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012, will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally at age 55. The formula used to calculate a protection occupation member's monthly IPERS benefits includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.50% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early retirement reduction is calculated differently for serviced earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earlies normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefits payments.

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions

Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point.

NOTE 9 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Contributions (Continued)

IPERS Contribution Rate Funding Policy requires the actuarial contribution rate to be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability based on a 30-year amortization period. The payment to amortize the unfunded actuarial is determined as a level percentage of your payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal years 2020 and 2019, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the Health System contributed 9.44% of covered payroll for a total rate of 15.73%. Protective occupation members contributed 6.61% and 6.81% of covered payroll as of June 30, 2020 and 2019, respectively, and the Health System contributed 9.91% and 10.21%, respectively, of covered payroll for a total rate of 16.52% and 17.02%, respectively.

The Health System's contributions to IPERS for the years ended June 30, 2020 and 2019 were $957,447 and $888,810, respectively.

Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2020 and 2019, the Health System reported a liability of $6,900,968 and $7,290,515, respectively, for its proportionate share of the net pension liability. The Health System net pension liability for 2020 and 2019 was measured as of June 30, 2019, and 2018, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Health System's proportion of the net pension liability was based on the Health System's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2019, the Health System's collective proportion was 0.1187940%, which was an increase of 0.003532% from its proportion measured as of June 30, 2018. At June 30, 2019, the Health System's proportion for the protection service group was 0.079403%, which was a 0.008871% increase from its proportion measured as of June 30, 2018.

NOTE 9 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions Continued)

For the years ended June 30, 2020 and 2019, the Health System recognized pension expense of $989,035 and $894,215, respectively. At June 30, 2020 and 2019, the Health System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 21,079	$ 249,899
Changes of Assumptions	761,574	781
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	809,143
Changes in Proportion and Differences Between Hospital Contributions and Proportionate Share of Contributions	211,675	507,824
Health System Contributions Subsequent to the Measurement Date	957,447	-
Total	$ 1,951,775	$ 1,567,647

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 40,566	$ 166,719
Changes of Assumptions	1,065,436	915
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	207,828
Changes in Proportion and Differences Between Hospital Contributions and Proportionate Share of Contributions	113,179	670,610
Health System Contributions Subsequent to the Measurement Date	888,810	-
Total	$ 2,107,991	$ 1,046,072

As of June 30, 2020 and 2019, the Health System reported $957,447 and $888,810, respectively, as deferred outflows of resources related to pensions resulting from the Health System contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the years ending June 30, 2021 and 2020, respectively.

NOTE 9 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	2020 Amount	2019 Amount
2020	$ -	$ 414,757
2021	69,060	145,892
2022	(286,340)	(198,845)
2023	(229,955)	(144,366)
2024	(130,117)	(44,329)
2025	4,033	-
Total	$ (573,319)	$ 173,109

There were no nonemployer contributing entities at IPERS.

Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (Effective June 30, 2017)	2.60% Annum
Rates of Salary Increase (Effective June 30, 2017)	3.25 - 16.25% average, including inflation rates vary by membership group
Long-Term Investment Rate of Return (Effective June 30, 2017)	7.00%, compounded annually, net of investment expense, including inflation
Wage Growth (Effective June 30, 2017)	3.25% per annum based on a 2.60% inflation and 0.65% real wage inflation

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experience study dates March 24, 2017, and a demographic assumption dated June 28, 2018.

Mortality rates used in the 2018 valuations were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return be weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

NOTE 9 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Actuarial Assumptions (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	22.0%	5.60 %
International Equity	15.0	6.08
Global Smart Beta Equity	3.0	5.82
Core Plus Fixed Income	27.0	1.71
Public Credit	3.5	3.32
Public Real Assets	7.0	2.81
Cash	1.0	(0.21)
Private Equity	11.0	10.13
Private Real Assets	7.5	4.76
Private Credit	3.0	3.01
Total	100.0 %	

Discount Rate

The discount rate used to measure the total pension liability was 7.00% for the years ended June 30, 2020 and 2019. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Health System will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension lability.

Sensitivity of the Health System's Proportionate Share of the Net Pension Lability to Changes in the Discount Rate

The following presents the Health System's proportionate share of the net pension liability as of June 30, 2020 and 2019, calculated using the discount rate of 7.00%, as well as what the Health System's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-poing higher (8.00%) than the current rate.

	2020		
	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Health System's Proportionate Share of the Net Pension Liability	$ 12,450,465	$ 6,900,968	$ 2,246,383

NOTE 9 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Sensitivity of the Health System's Proportionate Share of the Net Pension Lability to Changes in the Discount Rate (Continued)

	2019		
	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Health System's Proportionate Share of the Net Pension Liability	$ 12,525,027	$ 7,290,515	$ 2,899,754

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report, which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan

At June 30, 2020 and 2019, the Health System reported payables to the defined benefit pension plan of $310,206 and $112,866, respectively, for legally required employer contributions and employee contributions that had been withheld from employee wages but not yet remitted to IPERS.

NOTE 10 RELATED ORGANIZATIONS

Master Affiliation Agreement

The Health System has a Master Affiliation Agreement with Mercy Health Network dba MercyOne (MHN) to provide hospital, physician, and other health care services in Palo Alto County and surrounding counties in central Iowa. As a part of this Master Affiliation Agreement, the Health System entered into a Professional Service Agreement with MHN whereby MHN provides professional medical services for the Health System. Amounts paid to MHN for the provision of these services amounted to $2,828,901 and $2,165,775 for the years ended June 30, 2020 and 2019, respectively.

Management Services Agreement

The Health System has a contractual arrangement with MHN under which MHN provides administrative staff, management consultation, and other services to the Health System. The arrangement does not alter the authority or responsibility of the board of trustees of the Health System. Expenses for the administrative and management services for the years ended June 30, 2020 and 2019 were $782,872 and $738,038, respectively.

Due to Affiliated Organization

As of June 30, 2020 and 2019, the Health System's records reflect an amount due to MHN of $389,450 and $415,498, respectively, for the various services and distributions related to these agreements.

NOTE 11 CONTINGENCIES

Malpractice Insurance

The Health System has insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of $1 million per claim and an aggregate limit of $3 million. The Health System also has directors' and officers' insurance coverage to provide protection for losses on a claims-made basis subject to a limit of $2 million per claim and an aggregate limit of $2 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

Excess Liability Umbrella Insurance

The Health System also has excess liability umbrella coverage on a claims-made basis subject to a limit of $5 million per occurrence and an annual aggregate limit of $5 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

Self-Funded Employee Health Insurance Plan

The Health System has a self-funded employee health insurance plan covering substantially all employees. The plan is responsible to pay all administration expenses and benefits up to the reinsurance limits. A liability of $395,000 has been established to record the incurred but not reported claims outstanding at June 30, 2020 and 2019.

Health Care Legislation and Regulation

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient and resident services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violation of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient and resident services previously billed.

NOTE 12 RISK MANAGEMENT

The Health System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Health System assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

NOTE 13 CONCENTRATION OF CREDIT RISK

The Health System grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients, and residents at June 30, 2020 and 2019 was as follows:

	2020	2019
Medicare	34 %	28 %
Medicaid	14	12
Blue Cross	18	24
Other Third-Party Payors, Patients, and Residents	34	36
Total	100 %	100 %

NOTE 14 LIQUIDITY AND AVAILABILITY

As of December 31, 2019 and 2018, the Foundation has working capital of $680,437 and $688,637, respectively, and average day's cash on hand (based on normal expenditures and excluding noncurrent cash and cash equivalents) of $5,042 and $8,768, respectively.

Financial assets available for general expenditures within one year of the balance sheet consist of the following:

	2019	2018
Financial Assets at Year-End:		
Cash and Cash Equivalents	$ 679,708	$ 687,884
Accrued Interest Receivable	729	753
Noncurrent Cash and Cash Equivalents	1,165,511	1,147,653
Total Financial Assets	1,845,219	1,835,537
Less Amounts Not Available to be Used Within One Year:		
Noncurrent Cash and Cash Equivalents	(1,165,511)	(1,147,653)
Total Financial Assets Available for Use Within One Year	$ 679,708	$ 687,884

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures and liabilities come due. The Foundation does invest excess funds in long-term certificates of deposits. These noncurrent investments are not considered financial assets available for use within one year and have been removed from the calculation above. The Foundation, however, does reserve the right to pull the funds as deemed necessary to pay its obligations.

NOTE 15 FUNCTIONAL EXPENSES

Program and general expenses of the Foundation for the years ended December 31, 2019 and 2018 are as follows:

	2019		
	Program Services	Management and General	Total
Other Expenses	$ -	$ 560	$ 560
Contributions to Health System	48,645	-	48,645
Total	$ 48,645	$ 560	$ 49,205

	2018		
	Program Services	Management and General	Total
Other Expenses	$ -	$ 405	$ 405
Contributions to Health System	28,231	-	28,231
Total	$ 28,231	$ 405	$ 28,636

The Foundation identifies costs directly to program, support, or fundraising functions as invoices are received or expenses are incurred.

NOTE 16 COVID-19 PANDEMIC IMPACTS

In March 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Health System, COVID-19 may impact various parts of its fiscal year 2021 operations and financial results including but not limited to additional costs for emergency preparedness, disease control and containment, potential shortages of health care personnel, or loss of revenue due to reductions in certain revenue streams. Management believes the Health System is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as of June 30, 2020.

As part of the Health System's response to the COVID-19 pandemic it received payments from the CARES Act Provider Relief Fund (PRF), which is administered by the U.S. Department of Health and Human Services (HHS). The Health System received Provider Relief Funds in the amount of $4,424,187, made up of $520,773 from the General Distribution. $3,903,414 from Targeted Distributions for Rural Providers, Long-Term Care, and Rural Health Clinic (RHC) Testing. The PRF payments are subject to terms and conditions and can generally be used to prevent, prepare for, and respond to coronavirus through reimbursement of health care related expenses or lost revenues attributable to coronavirus. The PRF funds are also subject to certain reporting and audit requirements.

NOTE 16 COVID-19 PANDEMIC IMPACTS (CONTINUED)

Subsequent to year-end, HHS released detailed reporting requirements related to the PRF, which the Health System has taken into consideration when recognizing revenue related to the PRF. Reporting includes required data elements around eligible expenses, lost revenue, and other data points through the calendar year ended December 31, 2020, with a deadline of February 15, 2021.The Health System has recognized revenue of $125,879 for eligible expenses for the year-ended June 30, 2020. The revenue recognized is included with noncapital contributions and grants in the statement of revenues, expenses, and changes in net position. PRF funds received but not recognized totaling $4,298,308 as of June 30, 2020 are presented as unearned grant revenue in the statement of net position. Management believes the amounts have been recognized appropriately as of June 30, 2020 based on guidance released to date by HHS, although guidance from HHS continues to evolve subsequent to year-end.

REQUIRED SUPPLEMENTARY INFORMATION

PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – BUDGET AND ACTUAL (CASH BASIS) (UNAUDITED)
YEAR ENDED JUNE 30, 2020
(SEE INDEPENDENT AUDITORS' REPORT)

	General Fund	Accrual Adjustments	Cash Basis	Budgeted Amounts Amended	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	$ 1,565,669	$ -	$ 1,565,669	$ 1,471,392	$ 94,277
Estimated Other Revenues/Receipts	27,919,614	6,588,897	34,508,511	29,320,329	5,188,182
Total	29,485,283	6,588,897	36,074,180	30,791,721	5,282,459
Expenses/Disbursements	28,120,694	1,443,875	29,564,569	32,052,145	2,487,576
Net	1,364,589	5,145,022	6,509,611	(1,260,424)	7,770,035
Balance - Beginning of Year	27,553,005	(4,600,547)	22,952,458	31,306,166	(8,353,708)
Balance - End of Year	$ 28,917,594	$ 544,475	$ 29,462,069	$ 30,045,742	$ (583,673)

NOTE 1 BUDGETARY COMPARISON

This budgetary comparison is presented as required supplementary information in accordance with *Government Accounting Standards* for governments with significant budgetary perspective differences resulting from the Health System preparing a budget on the cash basis of accounting.

The board of trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Health System on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The board of trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures. The Health System did amend its original budget during the year ended June 30, 2020 due to the additional payment of some of the Health System's long-term debt. The Health System increased their original budgeted expenditures from $28,960,567 to $32,052,145

For the year ended June 30, 2020, the Health System's cash basis expenditures did not exceed the amended budgeted amount.

PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
SCHEDULE OF THE HEALTH SYSTEM'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (UNAUDITED)
FOR THE LAST SIX YEARS*
(SEE INDEPENDENT AUDITORS' REPORT)

	2020	2019	2018
Health System's Proportion of the Net Pension Liability	0.1187940%	0.1152620%	0.1290530%
Health System's Protection Proportion of the Net Pension Liability	0.0794030%	0.0705320%	0.0740250%
Health System's Proportionate Share of the Net Pension Liability	$ 6,900,968	$ 7,290,515	$ 8,533,035
Health System's Covered Payroll	$ 9,674,661	$ 9,058,890	$ 10,180,877
Health System's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	71.33 %	80.48 %	83.81 %
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.45%	83.62%	82.21 %

	2017	2016	2015
Health System's Proportion of the Net Pension Liability	0.1304400%	0.1276730%	0.1239000%
Health System's Protection Proportion of the Net Pension Liability	0.0811110%	0.0883510%	0.0896320%
Health System's Proportionate Share of the Net Pension Liability	$ 8,151,353	$ 6,308,663	$ 4,944,397
Health System's Covered Payroll	$ 9,862,686	$ 9,100,781	$ 8,696,358
Health System's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	82.65 %	69.32 %	56.86 %
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.82 %	85.19 %	87.61 %

*In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
SCHEDULE OF THE HEALTH SYSTEM'S CONTRIBUTIONS (UNAUDITED)
FOR THE LAST EIGHT YEARS*
(SEE INDEPENDENT AUDITORS' REPORT)

	2020	2019	2018	2017
Statutorily Required Contribution	$ 957,447	$ 888,810	$ 797,690	$ 880,738
Contributions in Relation to the Statutorily Required Contribution	957,447	888,810	797,690	880,738
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Health System Covered Payroll	$ 10,417,498	$ 9,674,661	$ 9,058,890	$ 10,180,877
Contributions as a Percentage of Covered Payroll (Regular)	9.44 %	9.44 %	8.93 %	8.93 %
Contributions as a Percentage of Covered Payroll (Protection)	10.21 %	10.21 %	9.84 %	9.84 %

	2016	2015	2014	2013
Statutorily Required Contribution	$ 849,968	$ 785,982	$ 767,878	$ 730,684
Contributions in Relation to the Statutorily Required Contribution	849,968	785,982	767,878	730,684
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Health System Covered Payroll	$ 9,862,686	$ 9,100,781	$ 8,696,358	$ 8,502,102
Contributions as a Percentage of Covered Payroll (Regular)	8.93 %	8.93 %	8.93 %	8.67 %
Contributions as a Percentage of Covered Payroll (Protection)	10.14 %	10.14 %	10.14 %	10.27 %

*GASB 68 requires 10 years of information to be presented in the table. However, until a full 10 years is compiled, the Health System will present information for those years for which information is available.

PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY
YEAR ENDED JUNE 30, 2020
(SEE INDEPENDENT AUDITORS'S REPORT)

NOTE 1 PENSION LIABILITY

Changes of Benefit Terms

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Changes of Assumptions

The 2018 valuation implemented the following refinements as a result of demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%
- Decreased the wage-growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year
- Adjusted male mortality for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2016. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

NOTE 1 PENSION LIABILITY (CONTINUED)

Changes of Assumptions (Continued)

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

OTHER SUPPLEMENTARY INFORMATION

PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
SCHEDULES OF PATIENT AND RESIDENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2020 AND 2019
(SEE INDEPENDENT AUDITORS'S REPORT)

	Total	
	2020	2019
PATIENT AND RESIDENT SERVICE REVENUE		
Medical and Surgical	$ 1,380,082	$ 1,239,534
Nursery	114,170	130,733
Long-Term Care	1,647,869	1,539,995
Total Patient and Resident Service Revenue	3,142,121	2,910,262
OTHER PROFESSIONAL SERVICE REVENUE		
Operating Room	2,898,039	3,099,492
Emergency Room	3,247,064	3,344,732
Labor and Delivery Room	81,214	68,976
Obstetric Services	265,950	314,664
Anesthesiology	634,332	719,785
Radiology and Ultrasound	6,218,196	6,090,113
Laboratory	5,439,130	5,288,950
Respiratory Therapy	437,838	568,375
Physical Therapy	1,170,200	1,242,005
Occupational Therapy	239,799	240,423
Speech Therapy	15,222	36,477
Electrocardiology	731,205	790,065
Medical and Surgical Supplies	518,232	778,363
Pharmacy	5,650,717	5,483,219
Ambulance	1,408,382	1,414,115
Home Health	685,459	582,025
Hospice	559,213	603,933
Cardiac Rehabilitation	107,821	133,313
Pulmonary Rehabilitation	159,746	163,639
Graettinger Clinic	537,125	687,856
Emmetsburg Clinic	5,878,695	5,575,417
West Bend Clinic	658,177	787,772
Total Other Professional Service Revenue	37,541,756	38,013,709
Gross Patient and Resident Charges	40,683,877	40,923,971
Charity Care	185,108	141,588
Total Patient and Resident Service Revenues	40,868,985	41,065,559
CONTRACTUAL ADJUSTMENTS		
Medicare	(6,431,611)	(6,966,183)
Medicaid	(2,169,322)	(2,391,505)
Commercial and Other	(5,896,199)	(5,679,094)
Total Contractual Adjustments	(14,497,132)	(15,036,782)
Patient and Resident Service Revenues, Net of Contractual Adjustments	26,371,853	26,028,777
Provision for Uncollectible Accounts	(222,972)	(406,072)
Net Patient and Resident Service Revenues	$ 26,148,881	$ 25,622,705

PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
SCHEDULES OF PATIENT AND RESIDENT SERVICE REVENUE (CONTINUED)
YEARS ENDED JUNE 30, 2020 AND 2019
(SEE INDEPENDENT AUDITORS' REPORT)

Inpatient		Outpatient	
2020	2019	2020	2019
$ 1,380,082	$ 1,239,534	$ -	$ -
114,170	130,733	-	-
1,647,869	1,539,995	-	-
3,142,121	2,910,262	-	-
422,783	510,513	2,475,256	2,588,979
78,355	23,715	3,168,709	3,321,017
81,214	68,976	-	-
187,587	234,471	78,363	80,193
75,839	100,871	558,493	618,914
226,647	126,893	5,991,549	5,963,220
514,811	293,637	4,924,319	4,995,313
319,648	407,760	118,190	160,615
207,671	202,515	962,529	1,039,490
119,402	90,874	120,397	149,549
2,308	4,149	12,914	32,328
29,229	27,010	701,976	763,055
186,433	378,107	331,799	400,256
532,533	579,416	5,118,184	4,903,803
-	-	1,408,382	1,414,115
-	-	685,459	582,025
79,040	20,382	480,173	583,551
-	-	107,821	133,313
-	-	159,746	163,639
-	-	537,125	687,856
-	-	5,878,695	5,575,417
-	-	658,177	787,772
3,063,500	3,069,289	34,478,256	34,944,420
$ 6,205,621	$ 5,979,551	$ 34,478,256	$ 34,944,420

PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2020 AND 2019
(SEE INDEPENDENT AUDITORS'S REPORT)

	2020	2019
OTHER OPERATING REVENUES		
Home Health Support	$ 116,014	$ 107,855
Business Health	128,640	184,214
Meals Sold	70,723	74,787
Specialty Clinic	30,430	53,460
Electronic Health Records Incentive Award	-	157,240
Miscellaneous	35,070	8,673
Total Other Operating Revenues	$ 380,877	$ 586,229

PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2020 AND 2019
(SEE INDEPENDENT AUDITORS'S REPORT)

	Total	
	2020	2019
Medical and Surgical	$ 1,300,488	$ 1,128,543
Nursery	17,520	14,773
Long-Term Care	1,045,744	1,002,694
Operating Room	597,250	719,458
Emergency Room	1,494,441	1,586,484
Labor and Delivery Room	7,622	5,731
Obstetric Services	31,317	37,094
Anesthesiology	235,786	285,153
Radiology and Ultrasound	783,150	981,008
Laboratory	1,024,399	965,622
Respiratory Therapy	118,270	15,095
Physical Therapy	443,375	394,170
Occupational Therapy	111,958	104,122
Speech Pathology	12,012	20,027
Electrocardiology	130,705	161,809
Pharmacy	1,633,501	1,472,810
Ambulance	415,933	386,938
Home Health	670,397	524,611
Hospice	201,779	209,274
Cardiac Rehab	144,853	118,692
Pulmonary Rehab	27,455	39,288
Specialty Clinic	12,403	8,996
Graettinger Clinic	407,964	458,527
Emmetsburg Clinic	3,611,712	3,281,327
West Bend Clinic	508,734	488,299
Apartments	116,453	120,807
Business Health	82,030	118,517
Diabetic Education	49,125	38,190
Administrative and General	3,528,832	3,018,072
Operation of Plant	640,652	632,894
Housekeeping, Laundry and Linen	240,168	223,915
Dietary	553,220	530,900
Nursing Administration	268,886	303,386
Medical Records	281,742	271,201
Blood	31,057	21,871
Central Supply	(83,919)	(34,273)
Population Health	139,270	131,225
Pex	109,709	92,921
Employee Benefits	4,247,397	3,885,922
Depreciation Expense	2,660,053	2,538,802
Amortization Expense	4,907	4,530
Interest Expense	262,344	288,777
Total	$ 28,120,694	$ 26,598,202

PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
SCHEDULES OF OPERATING EXPENSES (CONTINUED)
YEARS ENDED JUNE 30, 2020 AND 2019
(SEE INDEPENDENT AUDITORS' REPORT)

Salaries and Wages		Other	
2020	2019	2020	2019
$ 1,110,995	$ 998,970	$ 189,493	$ 129,573
7,179	5,836	10,341	8,937
956,129	925,476	89,615	77,218
297,003	319,037	300,247	400,421
929,637	590,266	564,804	996,218
2,091	1,422	5,531	4,309
19,570	28,997	11,747	8,097
-	-	235,786	285,153
427,204	434,634	355,946	546,374
460,215	411,632	564,184	553,990
68,474	13,913	49,796	1,182
319,500	303,273	123,875	90,897
105,789	65,878	6,169	38,244
-	-	12,012	20,027
16,772	43,393	113,933	118,416
-	-	1,633,501	1,472,810
320,843	301,497	95,090	85,441
549,887	431,800	120,510	92,811
130,119	142,003	71,660	67,271
134,383	111,232	10,470	7,460
23,151	33,541	4,304	5,747
4,399	7,427	8,004	1,569
277,638	326,111	130,326	132,416
1,181,505	1,241,936	2,430,207	2,039,391
267,256	296,995	241,478	191,304
43,398	48,843	73,055	71,964
57,300	85,364	24,730	33,153
48,487	37,186	638	1,004
1,174,477	1,094,357	2,354,355	1,923,715
224,591	199,449	416,061	433,445
212,373	192,854	27,795	31,061
358,091	350,856	195,129	180,044
197,927	175,781	70,959	127,605
268,653	241,115	13,089	30,086
748	1,685	30,309	20,186
1,294	5,865	(85,213)	(40,138)
137,486	130,115	1,784	1,110
82,934	75,922	26,775	16,999
-	-	4,247,397	3,885,922
-	-	2,660,053	2,538,802
-	-	4,907	4,530
-	-	262,344	288,777
$ 10,417,498	$ 9,674,661	$ 17,703,196	$ 16,923,541

PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
SCHEDULES OF PATIENT AND RESIDENT RECEIVABLES,
ALLOWANCE FOR DOUBTFUL ACCOUNTS, AND COLLECTION STATISTICS (UNAUDITED)
YEARS ENDED JUNE 30, 2020 AND 2019
(SEE INDEPENDENT AUDITORS'S REPORT)

Analysis of Aging

Age of Accounts (by Date of Discharge)	June 30, 2020 Amount	June 30, 2020 Percent	June 30, 2019 Amount	June 30, 2019 Percent
30 Days or Less	$ 2,933,655	70.78 %	$ 2,543,361	59.09 %
31-60 Days	358,952	8.66	637,673	14.81
61-90 Days	125,755	3.03	278,162	6.46
91 Days and Over	726,671	17.53	845,211	19.64
Total Accounts Receivable	4,145,033	100.00	4,304,407	100.00
Less: Allowances				
Allowance for Contractual Adjustments	1,335,790		1,463,320	
Allowance for Doubtful Accounts	312,203		344,895	
Net Accounts Receivable	$ 2,497,040		$ 2,496,192	

Analysis of Allowance for Doubtful Accounts for the Years Ended June 30, 2020 and 2019:

	2020	2019
Beginning Balance	$ 344,895	$ 396,032
Add:		
Provision for Uncollectible Accounts	222,972	406,072
Recoveries Previously Written-Off	196,097	214,189
	419,069	620,261
Less:		
Accounts Written-Off	(451,761)	(671,398)
Ending Balance	$ 312,203	$ 344,895

Collection Statistics

	2020	2019
Patient and Resident Receivables, Net	$ 2,497,040	$ 2,496,192
Number of Days Revenue Outstanding	35	36
Uncollectible Accounts (1)	225,779	488,724
Percentage of Uncollectible Accounts to Total Charges	0.55 %	1.20 %

(1) Includes provision for uncollectible accounts, charity care, and collection fees.

PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
JUNE 30, 2020 AND 2019
(SEE INDEPENDENT AUDITORS'S REPORT)

	2020	2019
INVENTORY		
Pharmacy	$ 208,621	$ 210,713
Central Supply	76,795	59,233
Dietary	9,608	11,751
Other	81,431	71,678
Total Inventory	$ 376,455	$ 353,375

	2020	2019
PREPAID EXPENSES		
Prepaid Insurance	$ 34,611	$ 1,050
Dues and Other	60,683	96,660
Total Prepaid Expenses	$ 95,294	$ 97,710

PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
SCHEDULES OF COMPARATIVE STATISTICS (UNAUDITED)
JUNE 30, 2020 AND 2019
(SEE INDEPENDENT AUDITORS'S REPORT)

	2020	2019
Patient Days		
Acute	851	731
Swing-Bed	996	1,050
Long-Term Care	7,916	7,887
Nursery	153	176
Totals	9,916	9,844
Admissions		
Acute	292	266
Swing-Bed	104	97
Long-Term Care	8	5
Totals	404	368
Discharges		
Acute	290	266
Swing-Bed	102	97
Long-Term Care	7	6
Totals	399	369
Acute Average Length of Stay	2.93	2.75
Swing-Bed Average Length of Stay	9.76	10.82
Acute Beds	25	25
Long-Term Care Beds	22	22
Percentage of Occupancy:		
Acute and Swing-Bed (Based on 25 Beds)	20.24 %	19.52 %
Long-Term Care (Based on 22 Beds)	98.58 %	98.22 %
Outpatient Visits	19,777	20,951
Clinic Visits:		
Graettinger	2,858	2,582
Emmetsburg	17,174	17,729
West Bend	3,015	3,485

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Palo Alto County Hospital
dba: Palo Alto County Health System
Emmetsburg, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Palo Alto County Hospital, dba: Palo Alto County Health System (Health System) and its discretely presented component unit, Palo Alto County Health Care Foundation, which comprise the statements of net position and balance sheets as of June 30, 2020 and 2019 and December 31, 2019 and 2018, respectively, and the related statements of revenues, expenses, and changes in net position, activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated December 8, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Health System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as 2020-001 and 2020-002, which we consider to be material weaknesses.

Board of Trustees
Palo Alto County Hospital
dba: Palo Alto County Health System

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Health System, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Comments involving statutory and other legal matters about the Health System's operations for the year ended June 30, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Health System and are reported in Part II of the accompanying schedule of findings and responses. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Responses to Findings

The Health System's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Health System's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Health System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
December 8, 2020

PALO ALTO COUNTY HOSPITAL
DBA: PALO ALTO COUNTY HEALTH SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2020

Part I: Findings Related to the Financial Statements

2020-001 Preparation of Financial Statements

Condition: A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Criteria: The board of trustees and management share the ultimate responsibility for the Health System's internal control system. While it is acceptable to outsource various accounting functions the responsibility for internal control cannot be outsourced.

The Health System engages auditors to assist in preparing its financial statements and accompanying disclosures. However, as independent auditors, CLA cannot be considered part of the internal control system. As part of its internal controls over the preparation of financial statements including disclosures, the Health System has implemented a comprehensive review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such review procedures should be performed by an individual possessing a thorough understanding of accounting principles generally accepted in the United States of America and knowledge of the Health System's activities and operations.

The Health System's personnel have not monitored recent accounting developments to the extent necessary to enable them to prepare the Health System's financial statements and related disclosures, to provide a high level of assurance that potential omissions or other errors that are material would be identified and corrected on a timely basis.

Cause: We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with U.S. GAAP can be considered costly and ineffective.

Effect: The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Health System. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. It is the responsibility of the Health System's management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

2020-001 Preparation of Financial Statements (Continued)

Recommendation: We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Response: This finding and recommendation is not a result of any change in the Health System's procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. Management feels that committing the resources necessary to remain current on U.S. GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion: Response accepted.

2020-002 Proposed Audit Adjustments

Criteria: The Health System must be able to prevent or detect a misstatement in the annual financial statements.

Condition: A misstatement of the Health System's financial statements could occur.

Cause: The Health System relied on the audit firm to propose audit adjustments to reconcile various accounts at year-end. All proposed audit adjustments are approved by management.

Effect: A misstatement of the financial statements could occur.

Recommendation: We recommend that the Health System accounting personnel review final account balances and consult with auditors throughout the year regarding accounts and adjustments as needed.

Response: Management will consult with the audit firm as needed during the year in order to adjust accounts to appropriately reconcile.

Conclusion: Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-20 **Certified Budget:** Health System cash basis expenditures during the year ended June 30, 2020 did not exceed amended budgeted amounts.

II-B-20 **Questionable Expenditures:** We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-20 **Travel Expense:** No expenditures of Health System money for travel expenses of spouses of Health System officials and/or employees were noted.

II-D-20 **Business Transactions:** We noted no material business transactions between the Health System and Health System officials and/or employees.

II-E-20 **Board Minutes:** No transactions were found that we believe should have been approved in the board minutes but were not.

II-F-20 **Deposits and Investments:** No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Health System's investment policy were noted.

II-G-20 **Publication of Bills Allowed and Salaries:** Chapter 347.13(11) of the Code of Iowa states, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category..." The Health System published a schedule of bills allowed and a schedule of salaries paid as required by the Code of Iowa.